

## **Sensitivity Revaluations on the Hong Kong Private Residential Market**

Real Estate Tech, January 1998.

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There had been a diversified range of opinion on the future price trends of the mass private residential market. Some said the downward correction was over while other analysts thought prices would go even lower. We have for interest run some figures using one of our simple rough calculation models and we have obtained the following results :

(a) Assuming all factors remain unchanged except interest rates, a rate of around 19% would have caused a 50% drop in prices alone.

(b) Naturally, it is rare for (a) to occur and generally a change in one factor may lead to changes in other factors, thus assuming :

I) Original Scenario : GDP/capita = US\$25,000, Economic Growth = 5.0%,  
Government Policy = 1.5 (this factor is subjective with 1.0 implying a government policy being neither an advantage nor a disadvantage to real estate), Interest Rate = 9%,  
Employment = 98%, Effective Mortgage Level = 70%.

II) Then IF : GDP/capita = same, Economic Growth = 4.0%, Government Policy = 1.25,  
Interest Rate = 10%, Employment = 97%, Effective Mortgage Level = 65%, a price drop of around 30% may occur.

III) Then IF : GDP/capita = same, Economic Growth = 3.0%, Government Policy = 1.1,  
Interest Rate = 11%, Employment = 96%, Effective Mortgage Level = 60%, a price drop of around 50% may occur.

IV) Then IF : GDP/capita = US\$22,500, Economic Growth = 2.0%, Government Policy = 1.0,  
Interest Rate = 13%, Employment = 95%, Effective Mortgage Level = 50%, a price drop of around 70% may occur.

As one can see, it may not be that hard to have residential prices slashed rather significantly from their peak levels as some have imagined. Stating the obvious, unemployment rates, government policy, interest rates, and GDP levels are crucial factors though attention is again raised to the inherently subjective input for the government policy factor.

Please note the above is NOT meant as a prediction but is just to find out very roughly the various "what-ifs" scenarios. Some of the data / information come from published sources yet it is not the figures themselves which matter but the sensitivity of prices in general to randomly selected combinations of variable factors.